

**REPORT OF THE AUDIT OF THE
BALLARD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BALLARD COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Ballard County Fiscal Court for fiscal year ended June 30, 2005. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Ballard County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$3,067,118 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,272,517 in its governmental funds as of June 30, 2005, with total net assets of \$3,018,162. In the enterprise fund, cash and cash equivalents were \$40,783 with total net assets of \$48,956. The fiscal court had total debt principal as of June 30, 2005 of \$3,802,460 with \$318,438 due within the next year.

Report Comments:

- The Fiscal Court Should Comply With Bid Procedures In Accordance With KRS 424.260
- The Quarterly Financial Report Should Be Accurate
- The Fiscal Court Should Maintain An Accurate And Up-To-Date List Of Capital Assets
- The Fiscal Court Should Establish And Utilize A Purchase Order System
- The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

Deposits:

The county's deposits were not fully insured and collateralized by bank securities. As of June 30, 2005, \$768,467 of the county's deposits were not secured by collateral by a financial institution.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Bob Buchanan, Ballard County Judge/Executive
Members of the Ballard County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Ballard County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Ballard County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
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The county has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ballard County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 12, 2006 on our consideration of Ballard County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of comments and recommendations, included herein, which discusses the following report comments:

- The Fiscal Court Should Comply With Bid Procedures In Accordance With KRS 424.260
- The Quarterly Financial Report Should Be Accurate
- The Fiscal Court Should Maintain An Accurate And Up-To-Date List Of Capital Assets
- The Fiscal Court Should Establish And Utilize A Purchase Order System
- The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 12, 2006

BALLARD COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Bob Buchanan	County Judge/Executive
Charles Allred	Magistrate
Richard Burnley	Magistrate
William Marshall	Magistrate
Robert Renfrow	Magistrate
Vickie Viniard	Magistrate

Other Elected Officials:

Michael Stacy	County Attorney
Stanley Hunt	Jailer
Lynn Lane	County Clerk
Faye Oldham	Circuit Court Clerk
Todd Cooper	Sheriff
Delores Hatler	Property Valuation Administrator
Robert Morrow	Coroner

Appointed Personnel:

Belinda Sullivan O'Neill	County Treasurer/Occupational Tax Collector
Jill Dupoyster	Finance Officer

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BALLARD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

BALLARD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,652,975	\$ 40,783	\$ 2,693,758
Total Current Assets	<u>2,652,975</u>	<u>40,783</u>	<u>2,693,758</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	221,845		221,845
Buildings	3,650,782		3,650,782
Vehicles and Equipment	295,020	8,173	303,193
Total Noncurrent Assets	<u>4,167,647</u>	<u>8,173</u>	<u>4,175,820</u>
Total Assets	<u>6,820,622</u>	<u>48,956</u>	<u>6,869,578</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	245,000		245,000
Financing Obligations	73,438		73,438
Total Current Liabilities	<u>318,438</u>		<u>318,438</u>
Noncurrent Liabilities:			
Bonds Payable	3,165,000		3,165,000
Financing Obligations	319,022		319,022
Total Noncurrent Liabilities	<u>3,484,022</u>		<u>3,484,022</u>
Total Liabilities	<u>3,802,460</u>		<u>3,802,460</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	365,187	8,173	373,360
Restricted For:			
Debt Service	380,458		380,458
Unrestricted	2,272,517	40,783	2,313,300
Total Net Assets	<u>\$ 3,018,162</u>	<u>\$ 48,956</u>	<u>\$ 3,067,118</u>

The accompanying notes are an integral part of the financial statements.

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BALLARD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

BALLARD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,452,525	\$ 875	\$ 206,334	\$
Protection to Persons and Property	999,725	494,634	160,663	18,344
General Health and Sanitation	39,418			18,900
Social Services	956			
Recreation and Culture	13,734			
Roads	668,530		721,417	
Interest on Long-term Debt	288,709			
Total Governmental Activities	3,463,597	495,509	1,088,414	37,244
Business-type Activities:				
Jail Canteen	6,760	4,857		
Total Business-type Activities	6,760	4,857		
Total Primary Government	\$ 3,470,357	\$ 500,366	\$ 1,088,414	\$ 37,244

General Revenues:

Taxes
 In Lieu Tax
 Excess Fees
 Legal Process
 Miscellaneous Revenues
 Interest Received

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (Restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,245,316)	\$	\$ (1,245,316)
(326,084)		(326,084)
(20,518)		(20,518)
(956)		(956)
(13,734)		(13,734)
52,887		52,887
(288,709)		(288,709)
(1,842,430)		(1,842,430)
	(1,903)	(1,903)
	(1,903)	(1,903)
(1,842,430)	(1,903)	(1,844,333)
1,755,762		1,755,762
5,926		5,926
7,452		7,452
62		62
96,979		96,979
81,803		81,803
1,947,984		1,947,984
105,554	(1,903)	103,651
2,912,608	50,859	2,963,467
\$ 3,018,162	\$ 48,956	\$ 3,067,118

The accompanying notes are an integral part of the financial statements.

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BALLARD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

BALLARD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Occupational Tax Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 35,030	\$ 142,452	\$ 50,333	\$ 2,001,846
Total Assets	<u>\$ 35,030</u>	<u>\$ 142,452</u>	<u>\$ 50,333</u>	<u>\$ 2,001,846</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 35,030	\$	\$	\$ 2,001,846
Special Revenue Funds		142,452	50,333	
Debt Service Fund				
Total Fund Balances	<u>\$ 35,030</u>	<u>\$ 142,452</u>	<u>\$ 50,333</u>	<u>\$ 2,001,846</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Public Properties Corporaton	Non- Major Funds	Total Governmental Funds
<u>\$ 380,458</u>	<u>\$ 42,856</u>	<u>\$ 2,652,975</u>
<u><u>\$ 380,458</u></u>	<u><u>\$ 42,856</u></u>	<u><u>\$ 2,652,975</u></u>
\$	\$	\$ 2,036,876
	42,856	235,641
<u>380,458</u>		<u>380,458</u>
<u><u>\$ 380,458</u></u>	<u><u>\$ 42,856</u></u>	<u><u>\$ 2,652,975</u></u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 2,652,975
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	6,504,837
Depreciation	(2,337,190)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not	
Reported in the Funds.	
Financing Obligations	(392,460)
Bonded Debt	<u>(3,410,000)</u>
Net Assets Of Governmental Activities	<u><u>\$ 3,018,162</u></u>

The accompanying notes are an integral part of the financial statements.

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BALLARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Occupational Tax Fund</u>
REVENUES				
Taxes	\$ 766,174	\$	\$	\$ 989,588
In Lieu Tax Payments	5,926			
Excess Fees	7,452			
Licenses and Permits	875			
Intergovernmental	115,915	721,417	376,101	
Charges for Services			63,564	
Miscellaneous	26,661	12,048	22,818	
Interest	7,660	1,654	168	36,382
Total Revenues	<u>930,663</u>	<u>735,119</u>	<u>462,651</u>	<u>1,025,970</u>
EXPENDITURES				
General Government	673,280			157,878
Protection to Persons and Property	1,203		652,500	
General Health and Sanitation	33,439			
Social Services	956			
Recreation and Culture	10,002			3,732
Roads		655,191		
Debt Service	11,454	58,635		
Administration	283,671	76,449	119,653	
Total Expenditures	<u>1,014,005</u>	<u>790,275</u>	<u>772,153</u>	<u>161,610</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(83,342)</u>	<u>(55,156)</u>	<u>(309,502)</u>	<u>864,360</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	53,000			63,549
Transfers From Other Funds	357,239	284,459	357,081	
Transfers To Other Funds	(290,000)	(190,000)		(932,425)
Total Other Financing Sources (Uses)	<u>120,239</u>	<u>94,459</u>	<u>357,081</u>	<u>(868,876)</u>
Net Change in Fund Balances	36,897	39,303	47,579	(4,516)
Fund Balances - Beginning (Restated)	(1,867)	103,149	2,754	2,006,362
Fund Balances - Ending	<u>\$ 35,030</u>	<u>\$ 142,452</u>	<u>\$ 50,333</u>	<u>\$ 2,001,846</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Public Properties Corporaton	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 1,755,762
		5,926
		7,452
		875
134,900	84,003	1,432,336
	148,182	211,746
10,235	1,489	73,251
35,690	249	81,803
<u>180,825</u>	<u>233,923</u>	<u>3,569,151</u>
		831,158
	315,089	968,792
	5,979	39,418
		956
		13,734
		655,191
2,376,015	14,002	2,460,106
35,221	29,838	544,832
<u>2,411,236</u>	<u>364,908</u>	<u>5,514,187</u>
<u>(2,230,411)</u>	<u>(130,985)</u>	<u>(1,945,036)</u>
		116,549
293,646	120,000	1,412,425
		(1,412,425)
<u>293,646</u>	<u>120,000</u>	<u>116,549</u>
(1,936,765)	(10,985)	(1,828,487)
2,317,223	53,841	4,481,462
<u>\$ 380,458</u>	<u>\$ 42,856</u>	<u>\$ 2,652,975</u>

The accompanying notes are an integral part of the financial statements.

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BALLARD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BALLARD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ (1,828,487)

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay 154,610

Depreciation Expense (275,417)

The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.

Financing Obligation Proceeds (116,549)

Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Financing Obligations Principal Amount 71,397

Bond Payments 2,100,000

Change in Net Assets of Governmental Activities \$ 105,554

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BALLARD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

BALLARD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 40,783	
Total Current Assets	<u>40,783</u>	
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	8,476	
Less Accumulated Depreciation	<u>(303)</u>	
Total Noncurrent Assets	<u>8,173</u>	
Total Assets	<u>48,956</u>	
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	8,173	
Unrestricted	<u>40,783</u>	
Total Net Assets	<u>\$ 48,956</u>	

The accompanying notes are an integral part of the financial statements.

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BALLARD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 4,857
Total Operating Revenues	<u>4,857</u>
Operating Expenses	
Work Release	3,769
Educational and Recreational	1,516
Depreciation	303
Miscellaneous	<u>1,172</u>
Total Operating Expenses	<u>6,760</u>
Operating Income (Loss)	<u>(1,903)</u>
Change In Net Assets	(1,903)
Total Net Assets - Beginning (Restated)	<u>50,859</u>
Total Net Assets - Ending	<u><u>\$ 48,956</u></u>

The accompanying notes are an integral part of the financial statements.

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BALLARD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BALLARD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 4,857
Work Release	(3,769)
Educational and Recreational	(1,516)
Miscellaneous	(1,172)
Net Cash (Used) By Operating Activities	(1,600)
Cash Flows From Capital and Related Financing Activities	
Lawn Equipment	(8,476)
Net Cash (Used) By Capital and Related Financing Activities	(8,476)
Net (Decrease) in Cash and Cash Equivalents	(10,076)
Cash and Cash Equivalents - July 1 (Restated)	50,859
Cash and Cash Equivalents - June 30	\$ 40,783

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

	Business-Type Activities - Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating (Loss)	\$ (1,903)
Adjustments to Reconcile Operating Income To Net Cash (Used) By Operating Activities	
Depreciation Expense	<u>303</u>
Total Cash (Used) By Operating Activities	<u><u>\$ (1,600)</u></u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS - MODIFIED CASH BASIS

June 30, 2005

BALLARD COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS - MODIFIED CASH BASIS

June 30, 2005

	<u>Agency Fund</u>	
	<u>Inmate Fund</u>	<u>Medical Reimbursement Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	<u>\$ 10,327</u>	<u>\$ 172,111</u>
Total Assets	<u>10,327</u>	<u>172,111</u>
Liabilities		
Current Liabilities:		
Amounts Held In Custody For Others	<u>10,327</u>	<u>172,111</u>
Total Liabilities	<u>10,327</u>	<u>172,111</u>
Net Assets	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Ballard County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

Ballard County Public Properties Corporation

The Ballard County Fiscal Court appoints a voting majority of the Ballard County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Improvement Corporation. Financial information for the Public Improvement Corporation is blended within Daviess County's financial statements. All activities of the Public Improvement Corporation are accounted for within a major (debt service) fund.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Kentucky law provides for election of the officials below from the geographic area constituting Ballard County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Ballard County, Kentucky.

Additional Ballard County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation - The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

Occupational Tax Fund - The purpose of this fund is to account for payroll tax receipts and expenses. The occupational tax fund may be used for general-purpose expenses that the county budgeted for general government, debt service, capital projects, and administration for the fiscal year. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: DES Fund and Ambulance Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, DES Fund, Ambulance Fund, Occupational Tax Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The Ballard County Public Properties Corporation is presented as a debt service fund. Debt service funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Fund - This fund is maintained by the Ballard County Jailer and accounts for monies belonging to the individuals incarcerated at the Ballard County Detention Center.

Medical Reimbursement Fund - This fund was established to account for a flexible spending account offered to the Ballard County employees. If an employee elects not to participate in the County's health insurance program, their employer's monthly health premium contribution is deposited and held in their name to be used by the employee for qualifying medical expenses.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	10-20
Machinery and Equipment	\$ 5,000	3-10
Vehicles	\$ 5,000	1-10
Infrastructure	\$ 5,000	10-30

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance. No encumbrances were reported for fiscal year ended June 30, 2005.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office for Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the following are considered jointly governed organizations of the Ballard County Fiscal Court: Ballard/Carlisle/Livingston Pubic Library and Ballard County Recreational Board.

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). However, as of June 30, 2005, \$768,467 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$768,467

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 201,845	\$ 20,000	\$	\$ 221,845
Total Capital Assets Not Being Depreciated	201,845	20,000		221,845
Capital Assets, Being Depreciated:				
Buildings	5,358,600			5,358,600
Vehicles and Equipment	789,782	134,610		924,392
Total Capital Assets Being Depreciated	6,148,382	134,610		6,282,992
Less Accumulated Depreciation For:				
Buildings	(1,513,138)	(194,680)		(1,707,818)
Vehicles and Equipment	(548,635)	(80,737)		(629,372)
Total Accumulated Depreciation	(2,061,773)	(275,417)		(2,337,190)
Total Capital Assets, Being Depreciated, Net	4,086,609	(140,807)		3,945,802
Governmental Activities Capital Assets, Net	4,288,454	(120,807)		4,167,647
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment		8,476		8,476
Total Capital Assets Being Depreciated		8,476		8,476
Less Accumulated Depreciation For:				
Vehicles and Equipment		(303)		(303)
Total Accumulated Depreciation		(303)		(303)
Total Capital Assets, Being Depreciated, Net		8,173		8,173
Business-Type Activities Capital Assets, Net	\$ 0	\$ 8,173	\$ 0	\$ 8,173

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 130,161
Protection to Persons and Property	115,265
Roads	<u>29,991</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 275,417</u>

Business-Type Activities

Jail Canteen	<u>\$ 303</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 303</u>

Note 4. Short-term Debt

In July 2004, Ballard County participated in the Kentucky Association of Counties Advance Revenue Program (KARP) by issuing a note in the amount of \$2,290,500, with principal being due in January 2005. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Advance Revenue Program of \$7,034.

Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance				
Revenue Program	<u>\$ 0</u>	<u>\$ 2,290,500</u>	<u>\$2,290,500</u>	<u>\$ 0</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt

A. General Obligation Detention Facility Refinancing Bonds, Series 2002

Ballard County issued general obligation detention facility refinancing bonds, series 2002, dated October 1, 2002, for the purpose of: 1) advance refunding all of the outstanding Series 1995A bonds issued by the Ballard County Public Properties Corporation and 2) paying the cost of issuance on the bonds. As of June 30, 2005, the Series 1995A bonds had been called. Ballard County issued \$2,070,000 of refinancing bonds, the proceeds of which were used to discharge all prior bonds. As of June 30, 2005, outstanding bond principal was \$1,650,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 140,000	\$ 57,658
2007	145,000	54,157
2008	150,000	50,170
2009	150,000	45,520
2010	160,000	40,495
2011-2015	905,000	110,095
Totals	<u>\$ 1,650,000</u>	<u>\$ 358,095</u>

B. Courthouse Facility First Mortgage Revenue Bonds, Series 1995B

The Ballard County Public Properties Corporation issued first mortgage revenue bonds, series 1995B, dated September 1, 1995, for the purpose of renovating the Ballard County courthouse. Original amount issued was \$2,420,000. Interest rates range from 5.6%-5.7%. Principal on bonds is due September 1 of each year and interest is due March 1 and September 1 of each year. As of June 30, 2005, outstanding bond principal was \$1,760,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 105,000	\$ 97,246
2007	110,000	91,172
2008	120,000	84,645
2009	125,000	77,662
2010	135,000	70,253
2011-2015	785,000	225,008
2016-2017	380,000	21,945
Totals	<u>\$ 1,760,000</u>	<u>\$ 667,931</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

C. Financing Agreement - Road Project

On November 1, 2000, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the financing of a road-paving project to be located and used in Ballard County, Kentucky. The principal of the lease is \$500,000 with repayment to be made over a ten-year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2005, outstanding lease principal was \$297,915. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 50,800	\$ 7,843
2007	52,247	6,401
2008	53,736	4,926
2009	55,266	3,403
2010	56,841	1,837
2011	29,025	319
Totals	<u>\$ 297,915</u>	<u>\$ 24,729</u>

D. Financing Agreement - Ambulance

On July 20, 2004, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of an ambulance to be used in Ballard County, Kentucky. The principal of the lease is \$63,549 with repayment to be made over a five-year period. Principal payments are due monthly on the 20th of each month in variable amounts. Interest at a fixed rate of 2.8% plus associated fees are due monthly in variable amounts. As of June 30, 2005, outstanding lease principal was \$51,531. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 12,354	\$ 1,671
2007	12,700	1,226
2008	13,056	769
2009	13,421	293
Totals	<u>\$ 51,531</u>	<u>\$ 3,959</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

E. Financing Agreement - Recording Equipment

On June 24, 2004, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of recording equipment to be used in the Ballard County Clerk's office. The principal of the lease is \$53,000 with repayment to be made over a five-year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2005, outstanding lease principal was \$43,014. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 10,284	\$ 1,141
2007	10,591	834
2008	10,907	520
2009	11,232	196
Totals	<u>\$ 43,014</u>	<u>\$ 2,691</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 1,790,000	\$	\$ 140,000	\$ 1,650,000	\$ 140,000
Revenue Bonds	3,720,000		1,960,000	1,760,000	105,000
Financing Obligations	347,308	116,549	71,397	392,460	73,438
Governmental Activities					
Long-term Liabilities	<u>\$ 5,857,308</u>	<u>\$ 116,549</u>	<u>\$ 2,171,397</u>	<u>\$ 3,802,460</u>	<u>\$ 318,438</u>

Note 6. Interest On Long-term Debt

Interest on Long-term Debt on the Statement of Activities includes \$12,694 in interest on financing obligations and \$276,015 in interest on bonds.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 7. Employee Retirement System

Ballard County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Ballard County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Ballard County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 10. Prior Period Adjustments

Due to misstatements reported in the prior year audit report, the beginning balances for assets, liabilities and fund balances have been restated. The effect of this change on the beginning net assets is a decrease of \$15,587 in the governmental activities and an increase of \$100 in the business-type activities.

	Beginning Balances FYE 6/30/04	Prior Period Adjustments	(Restated) Beginning Balance: FYE 6/30/04
<u>Governmental Activities</u>			
Assets			
Current Assets			
General Fund	\$ 2,162,952	\$ (2,164,819)	\$ (1,867)
Road Fund	117,608	(14,459)	103,149
Jail Fund	29,835	(27,081)	2,754
DES Fund	11,529		11,529
Ambulance Fund	46,224	(3,912)	42,312
Occupational Tax Fund		2,006,362	2,006,362
Public Properties Corporation	238,622	2,078,601	2,317,223
Total Current Assets	<u>2,606,770</u>	<u>1,874,692</u>	<u>4,481,462</u>
Noncurrent Assets (Net Accumulated Depreciation)			
Land	196,845	5,000	201,845
Land Improvements	2,000	(2,000)	
Buildings	3,943,640	(98,178)	3,845,462
Vehicle/Equipment	164,477	76,670	241,147
Total Noncurrent Assets	<u>4,306,962</u>	<u>(18,508)</u>	<u>4,288,454</u>
Total Assets	<u>6,913,732</u>	<u>1,856,184</u>	<u>8,769,916</u>
Liabilities			
Current Liabilities			
Accounts Payable	659	(659)	
Due Within One Year		2,171,397	2,171,397
Total Current Liabilities	<u>659</u>	<u>2,170,738</u>	<u>2,171,397</u>
Noncurrent Liabilities			
Due Within One Year	287,408	(287,408)	
Due In More Than One Year	3,697,470	(11,559)	3,685,911
Total Noncurrent Liabilities	<u>3,984,878</u>	<u>(298,967)</u>	<u>3,685,911</u>
Total Liabilities	<u>3,985,537</u>	<u>1,871,771</u>	<u>5,857,308</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	671,962	(2,240,816)	(1,568,854)
Restricted for:			
Debt Service	238,622	2,078,601	2,317,223
Unrestricted	<u>2,017,611</u>	<u>146,628</u>	<u>2,164,239</u>
Total Net Assets	<u>\$ 2,928,195</u>	<u>\$ (15,587)</u>	<u>\$ 2,912,608</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 10. Prior Period Adjustments (Continued)

	Beginning Balances FYE 6/30/04	Prior Period Adjustments	(Restated) Beginning Balance: FYE 6/30/04
<u>Business-type Activities</u>			
Assets			
Current Assets			
Jail Canteen	\$ 50,759	100	\$ 50,859
Total Current Assets	<u>\$ 50,759</u>	<u>100</u>	<u>\$ 50,859</u>

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BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 635,024	\$ 635,024	\$ 766,174	\$ 131,150
In Lieu Tax Payments	6,500	6,500	5,926	(574)
Excess Fees	14,300	14,300	7,452	(6,848)
Licenses and Permits	800	800	875	75
Intergovernmental Revenue	2,064,546	2,064,546	115,915	(1,948,631)
Miscellaneous	90,960	90,960	26,661	(64,299)
Interest	2,400	2,400	7,660	5,260
Total Revenues	<u>2,814,530</u>	<u>2,814,530</u>	<u>930,663</u>	<u>(1,883,867)</u>
EXPENDITURES				
General Government	700,002	808,851	673,280	135,571
Protection to Persons and Property	2,828	2,828	1,203	1,625
General Health and Sanitation	14,275	15,475	33,439	(17,964)
Social Services	1,602,000	1,602,000	956	1,601,044
Recreation and Culture	80,000	80,000	10,002	69,998
Debt Service	365,500	258,966	11,454	247,512
Administration	344,000	340,485	283,671	56,814
Total Expenditures	<u>3,108,605</u>	<u>3,108,605</u>	<u>1,014,005</u>	<u>2,094,600</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(294,075)</u>	<u>(294,075)</u>	<u>(83,342)</u>	<u>210,733</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			53,000	53,000
Borrowed Money	350,000	350,000		(350,000)
Transfers From Other Funds	8,300	8,300	357,239	348,939
Transfers To Other Funds	<u>(114,225)</u>	<u>(114,225)</u>	<u>(290,000)</u>	<u>(175,775)</u>
Total Other Financing Sources (Uses)	<u>244,075</u>	<u>244,075</u>	<u>120,239</u>	<u>(123,836)</u>
Net Changes in Fund Balance	(50,000)	(50,000)	36,897	86,897
Fund Balance - Beginning (Restated)	<u>50,000</u>	<u>50,000</u>	<u>(1,867)</u>	<u>(51,867)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 35,030</u>	<u>\$ 35,030</u>

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 751,185	\$ 751,185	\$ 721,417	\$ (29,768)
Miscellaneous	252,692	252,692	12,048	(240,644)
Interest	15,000	15,000	1,654	(13,346)
Total Revenues	1,018,877	1,018,877	735,119	(283,758)
EXPENDITURES				
Roads	1,178,333	1,182,379	655,191	527,188
Road Facilities	190,400	176,916		176,916
Debt Service			58,635	(58,635)
Administration	123,205	132,643	76,449	56,194
Total Expenditures	1,491,938	1,491,938	790,275	701,663
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(473,061)	(473,061)	(55,156)	417,905
OTHER FINANCING SOURCES (USES)				
Borrowed Money	185,000	185,000		(185,000)
Transfers To Other Funds			(190,000)	(190,000)
Transfers From Other Funds	278,061	278,061	284,459	6,398
Total Other Financing Sources (Uses)	463,061	463,061	94,459	(368,602)
Net Changes in Fund Balance	(10,000)	(10,000)	39,303	49,303
Fund Balance - Beginning (Restated)	10,000	10,000	103,149	93,149
Fund Balance - Ending	\$ 0	\$ 0	\$ 142,452	\$ 142,452

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 515,500	\$ 515,500	\$ 376,101	\$ (139,399)
Charges for Services	85,500	85,500	63,564	(21,936)
Miscellaneous	57,500	57,500	22,818	(34,682)
Interest	25,800	25,800	168	(25,632)
Total Revenues	684,300	684,300	462,651	(221,649)
EXPENDITURES				
Protection to Persons and Property	661,993	647,814	652,500	(4,686)
Administration	132,650	146,829	119,653	27,176
Total Expenditures	794,643	794,643	772,153	22,490
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(110,343)	(110,343)	(309,502)	(199,159)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	109,343	109,343	357,081	247,738
Total Other Financing Sources (Uses)	109,343	109,343	357,081	247,738
Net Changes in Fund Balance	(1,000)	(1,000)	47,579	48,579
Fund Balance - Beginning (Restated)	1,000	1,000	2,754	1,754
Fund Balance - Ending	\$ 0	\$ 0	\$ 50,333	\$ 50,333

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,180,260	\$ 1,180,260	\$ 989,588	\$ (190,672)
Interest	115,750	115,750	36,382	(79,368)
Total Revenues	1,296,010	1,296,010	1,025,970	(270,040)
EXPENDITURES				
General Government	393,190	393,655	157,878	235,777
Debt Service	867,460	867,460		867,460
Capital Projects	1,072,056	1,069,959		1,069,959
Administration	3,080	4,712	3,732	980
Total Expenditures	2,335,786	2,335,786	161,610	2,174,176
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,039,776)	(1,039,776)	864,360	1,904,136
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			63,549	63,549
Transfers To Other Funds	(358,619)	(358,619)	(932,425)	(573,806)
Total Other Financing Sources (Uses)	(358,619)	(358,619)	(868,876)	(510,257)
Net Changes in Fund Balances	(1,398,395)	(1,398,395)	(4,516)	1,393,879
Fund Balances - Beginning (Restated)	1,398,395	1,398,395	2,006,362	607,967
Fund Balances - Ending	\$ 0	\$ 0	\$ 2,001,846	\$ 2,001,846

BALLARD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Actual Operating Expenditures reported in the Statement of Revenue, Expenditures And Changes in Fund Balance does not agree with budget operating expenditures reported in the Required Supplementary Information (RSI) due to the Public Properties Corporation not being budgeted. The Governor's Office for Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

Budgeted Expenditures Reported in RSI	\$3,102,951
Expenditures from Public Properties	<u>2,411,236</u>

Actual Operating Expenditures reported	
In Statement of Revenues, Expenditures	
And Changes in Fund Balance	<u>\$5,514,187</u>

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BALLARD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

BALLARD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	DES Fund	Ambulance Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 10,878	\$ 31,978	\$ 42,856
Total Assets	<u>\$ 10,878</u>	<u>\$ 31,978</u>	<u>\$ 42,856</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 10,878	\$ 31,978	\$ 42,856
Total Fund Balances	<u>10,878</u>	<u>31,978</u>	<u>42,856</u>

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BALLARD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

BALLARD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	DES Fund	Ambulance Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 73,314	\$ 10,689	\$ 84,003
Charges for Services		148,182	148,182
Miscellaneous	120	1,369	1,489
Interest		249	249
Total Revenues	<u>73,434</u>	<u>160,489</u>	<u>233,923</u>
EXPENDITURES			
Protection to Persons and Property	82,601	232,488	315,089
General Health and Sanitation	5,979		5,979
Debt Service		14,002	14,002
Administration	5,505	24,333	29,838
Total Expenditures	<u>94,085</u>	<u>270,823</u>	<u>364,908</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(20,651)</u>	<u>(110,334)</u>	<u>(130,985)</u>
OTHER FINANCING SOURCES (USES)			
Transfers From Other Funds	20,000	100,000	120,000
Total Other Financing Sources (Uses)	<u>20,000</u>	<u>100,000</u>	<u>120,000</u>
Net Change in Fund Balances	(651)	(10,334)	(10,985)
Fund Balances - Beginning (Restated)	11,529	42,312	53,841
Fund Balances - Ending	<u>\$ 10,878</u>	<u>\$ 31,978</u>	<u>\$ 42,856</u>

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**BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2005

**BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2005

STATE LAWS AND REGULATIONS

The Fiscal Court Should Comply With Bid Procedures In Accordance With KRS 424.260

During the fiscal year ended June 30, 2005, the following purchases were made with no evidence of bidding found.

- | | |
|---|-----------|
| • Contracted Services For Courthouse Cleaning | \$ 26,400 |
| • Purchase of Rock and Hauling | \$126,196 |
| • Homeland Security Grant Equipment | \$ 44,837 |

According to KRS 424.260, purchases of materials, supplies, equipment, or contracted services exceeding \$20,000 are required to be bid. We recommend that the Fiscal Court comply with KRS 424.260 by advertising bids for purchases exceeding \$20,000. Evidence of the bidding process should be kept on file.

County Judge/Executive Bob Buchanan's Response:

None.

The Fiscal Court Should Maintain An Accurate And Up-To-Date List Of Capital Assets

The Fiscal Court did not maintain an updated list of capital assets. We noted that no additions or deletions had been made to the county's capital assets ending balances from the prior year's audit. During the fiscal year ending June 30, 2005, auditor found capital assets valued at \$154,610 were purchased for governmental activities and capital assets valued at \$8,476 was purchased for business-type activities. No evidence was found where any assets had been sold or discarded.

KRS 68.210 gives the Governor's Office for Local Development (GOLD) the authority to set minimum accounting and reporting standards for all local government officials. In accordance with this statute, GOLD has set the uniform system of accounts for all Kentucky counties. As part of this uniform system of accounts, GOLD requires the Fiscal Court to maintain an accurate and updated list of capital assets. We recommend that the Fiscal Court maintain an accurate and up-to-date list of capital asset transactions (additions/deletions) along with their applicable depreciation expense as required by GOLD.

County Judge/Executive Bob Buchanan's Response:

Prior year auditor was supposed to have information on disk did not.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2005
(Continued)

STATE LAWS AND REGULATIONS (Continued)

The Fiscal Court Should Establish And Utilize A Purchase Order System

The County Judge/Executive did not issue purchase orders during the fiscal year. KRS 68.210 gives the Governor's Office for Local Development (GOLD) the authority to set minimum accounting and reporting standards for all local government officials. In accordance with this statute, GOLD has set the uniform system of accounts for all Kentucky counties. As part of this uniform system of accounts, GOLD requires that a purchase order system be utilized. A purchase order journal (a daily, chronological listing of all purchase orders issued) should include the following:

- Purchase order number
- Person purchase order approved by
- Date of purchase
- Description of purchase
- Amount of purchase (or maximum amount allowed)
- Appropriation account code
- Vendor name
- Date invoice received
- Amount of invoice
- Date claim reviewed by fiscal court
- Date paid
- Amount paid

At the end of each fiscal year, any outstanding encumbrances are to be reported on the quarterly financial report.

We recommend that the Fiscal Court establish and utilize a purchase order system for all purchases in accordance with the requirements of GOLD.

County Judge/Executive Bob Buchanan's Response:

None.

The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

According to KRS 64.530(1), the Fiscal Court shall annually fix the compensation of each county officer and employee. Currently, the Fiscal Court approves wage compensations for all county employees through the approval of the original budget. In order to comply with KRS 64.530, we recommend that, at the beginning of each fiscal year, a list of each employee, by job position, along with his/her compensation rate, be listed and approved by the Fiscal Court. This list as approved by the Fiscal Court should be documented in the Fiscal Court Order Book.

County Judge/Executive Bob Buchanan's Response:

None.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2005
(Continued)

REPORTABLE CONDITIONS

The Quarterly Financial Report Should Be Accurate

According to KRS 68.020(4), the County Treasurer “shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the State Local Finance Officer”. The County Treasurer should prepare a quarterly financial report for the State Local Finance Officer. Additionally, the County Judge/Executive is required to keep certain records and make certain reports. The County Judge/Executive may delegate these duties to a finance director. However, the County Judge/Executive is responsible for the county’s quarterly financial report pursuant to KRS 68.360(2). The quarterly financial report submitted to the State Local Finance Officer by the County Treasurer was not accurate or complete.

- Total expenditures reported on front page of Quarterly Financial Report do not agree with expenditures detail, there is a variance of \$297,693.
- The quarterly financial report did not disclose the original budget as approved by Fiscal Court.
- Budget transfers in and out of accounts did not agree.
- Certificates of deposits reported were overstated by \$56,062.
- Interest earned on Occupational Tax accounts was overstated by \$124,657.
- The quarterly financial report omitted fund activity for the Homeland Security Grant, the Ambulance Billing Service, and the Kevil Water Project (Community Development Block Grant).
- The Kentucky Association of Counties Leasing Trust Program proceeds and debt repayments were posted in wrong accounts.
- The long-term liabilities section excluded \$3,553,608 of outstanding debt.
- The Occupational Tax Account Fund had a negative bank balance of \$(31,512) in one of its bank accounts as of June 30, 2005.
- The deposits-in-transit reported, as of June 30, 2005 were ‘negative’ deposits of \$27,849, which were not actual deposits. No evidence was found of the existence of any deposits-in-transits as of June 30, 2005.

We recommend that the County Treasurer reconcile bank information and certificate of deposits to the balances and amounts stated in the quarterly financial report. We recommend that the County Judge/Executive or his designee review the quarterly financial report and supporting documentation to make sure that it is accurate and complete.

County Judge/Executive Bob Buchanan’s Response:

Williams, Williams, and Lentz, Certified Public Accountants, conducted our prior year audit and incorrectly combined different funds together, creating major funds that really did not exist and accrued interest to these funds. The county is on a cash basis of accounting and the interest should not have been accrued. They submitted a list of audit adjustments to the County Treasurer and she reflected some of these adjustments in the current “Quarterly Financial Report” which caused it to be incorrect. The computer system also failed. We used our backup to restore much of this information, however not all of the financial transactions were re-entered into the computer system causing errors. In the future, we will make every effort to ensure that this report is accurate.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bob Buchanan, Ballard County Judge/Executive
Members of the Ballard County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 12, 2006. Ballard County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ballard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Ballard County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comments and recommendations.

- The Quarterly Financial Report Should Be Accurate

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Ballard County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying comments and recommendations.

- The Fiscal Court Should Comply With Bid Procedures In Accordance With KRS 424.260
- The Fiscal Court Should Maintain An Accurate And Up-To-Date List Of Capital Assets
- The Fiscal Court Should Establish And Utilize A Purchase Order System
- The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 12, 2006

